

## **Utilization of Loan Repayment Plans in the Federal Direct Student Loan Program<sup>1</sup>**

The Student Loan Reform Act of 1993 expanded the range of loan repayment options available under the Federal student loan programs. Of interest to the Study Group on Market Mechanisms in the Student Loan programs is the utilization of the various repayment plans available in the William D. Ford Federal Direct Loan Program, especially the utilization of the Income Contingent Repayment (ICR) plan. The utilization of the various repayment plans varies significantly by whether the loan was a consolidation loan. Thus, we are providing an analysis of overall ICR usage in the Direct Loan program as well as ICR usage among consolidation borrowers.

### **All Loans in Repayment**

- ◆ A total of nearly 2.7 million borrowers have loans in repayment under the William D. Ford Federal Direct Loan Program. These borrowers have loan amounts totaling nearly \$34 billion.<sup>2</sup> Of the total loan amount, 31 percent is subsidized Stafford loans, 17 percent is unsubsidized Stafford loans, 11 percent is PLUS loans, and 41 percent is consolidation loans (Table 1).
- ◆ Of the total amount in repayment (Table 2),
  - ◆ Fifty-six (56) percent is being repaid through the standard repayment plan;
  - ◆ Twenty (20) percent is being repaid through the graduated repayment plan;
  - ◆ Twelve (12) percent is being repaid through the extended repayment plan; and
  - ◆ Twelve (12) percent is being repaid through ICR. Roughly half of the loans being repaid under the ICR option currently require payments that are less than the interest due on the loan.

### **Consolidation Loans in Repayment**

- ◆ As shown in Table 1, consolidations comprise more than 40 percent of the Direct Loan repayment portfolio by loan amount, and the Department tracks this closely as ED does allow borrowers to consolidate defaulted loan(s) for the purpose of obtaining an income contingent repayment arrangement. Defaulted loans that are not being rehabilitated through the Direct Loan income contingent repayment [or other reasonable and affordable plan] are normally pursued and collected by collection agencies contracted by Department's Debt Collection Service (DCS).

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<sup>1</sup> All information presented is as of May 31, 2000.

<sup>2</sup> Principal balance outstanding figures are excluded for Direct Loans that have been transferred to the Debt Collection Service (DCS). Once defaulted, a borrower has 65 days to work out a reasonable and affordable payment arrangement with DCS. One such arrangement could be ICR. If the borrower makes 12 current, monthly payments, then the loan may be rehabilitated into a non-default status. If the ICR-rehabilitated loan was originally a FFEL loan, then it would be transferred to Sallie Mae; likewise if the ICR-rehabilitated loan was a Direct Loan, then it would be transferred to Direct Loan Servicing. *However, since the onset of ICR default rehabilitation, not a single Direct Loan has ever been rehabilitated and transferred back to Direct Loan Servicing.*

- ◆ Nearly 710,000 borrowers have consolidation loans in repayment totaling more than \$14 billion in original loan amounts (Table 1). Almost all (95 percent) of the \$14 billion in original loan amounts are “regular” consolidation loans. The remaining 5 percent represent loans previously held by the Department’s Debt Collection Service (DCS) (Table 3).
- ◆ Of the total consolidation amount in repayment (Table 4),
  - ◆ Twenty-nine (29) percent is being repaid through the standard repayment plan;
  - ◆ Twenty-seven (27) percent is being repaid through the income contingent repayment (ICR) plan. Roughly half of the loans being repaid under the ICR option currently require payments totaling less than the interest owed on the loan;
  - ◆ Twenty-two (22) percent is being repaid through the graduated repayment plan; and
  - ◆ Twenty (20) percent is being repaid through the extended repayment plan.
- ◆ Of the loans being repaid through income-contingent repayment (Table 2 – 193,289 borrowers), 94 percent are consolidation loans (Table 4 – 182,178 borrowers).
- ◆ Of the consolidation loan amounts previously held by the Department’s DCS, 11% are in ICR. Of the “regular” [not previously held by DCS] consolidation loan amounts, 28% are in ICR (Tables 5 and 6).

**Table 1: Direct Loans In Repayment by Loan Type**

Loan Type	Borrower Count (#)	Percent of Total Borrower Count	Principal Balance Outstanding (\$)	Loan Amount (\$)	Average Loan Amount	Percent of Total Loan Amount
Subsidized	1,501,329	56%	9,627,369,029	10,431,517,693	\$ 6,948	31%
Unsubsidized	932,386	35%	5,861,802,639	5,694,855,988	\$ 6,108	17%
PLUS	372,453	14%	3,335,602,873	3,788,560,419	\$ 10,172	11%
Consolidation	709,786	26%	13,447,855,619	14,070,935,315	\$ 19,824	41%
Total *	2,684,031	100%	32,272,630,160	33,985,869,415	\$ 12,662	100%

\* Unduplicated borrower count.

**Table 2: Direct Loans in Repayment by Plan**

Repayment Plan	Borrower Count (#)	Percent of Total Borrower Count	Principal Balance Outstanding (\$)	Loan Amount (\$)	Average Loan Amount	Percent of Total Loan Amount
Standard	1,944,060	72%	17,315,051,937	18,884,768,619	\$ 9,714	56%
Graduated	402,876	15%	6,757,482,096	6,729,516,982	\$ 16,704	20%
Extended	149,703	6%	3,981,172,966	4,116,109,476	\$ 27,495	12%
Income Contingent Repayment	193,289	7%	4,041,457,111	4,049,233,342	\$ 20,949	12%
Payments greater than or equal to interest	101,725	4%	2,033,145,308	2,057,503,793	\$ 20,226	6%
Payments less than interest	91,564	3%	2,008,311,803	1,991,729,549	\$ 21,752	6%
Alternative Plan	10,740	0%	177,466,051	206,240,996	\$ 19,203	1%
Total *	2,684,031	100%	32,272,630,160	33,985,869,415	\$ 12,662	100%

\* Unduplicated borrower count.

**Table 3: Source of Direct Consolidation Loans in Repayment**

Consolidation Type	Borrower Count (#)	Percent of Total Borrower Count	Principal Balance Outstanding (\$)	Loan Amount (\$)	Average Loan Amount	Percent of Total Loan Amount
"Regular" Consolidation Loans	598,715	84%	12,762,306,108	13,362,649,377	\$ 22,319	95%
Defaulted Loans Formerly Held by DCS	112,135	16%	684,081,869	706,738,859	\$ 6,303	5%
Total *	709,786	100%	13,446,387,978	14,069,388,236	\$ 19,822	100%

\* Unduplicated borrower count.

**Table 4: Direct Consolidation Loans in Repayment by Plan**

<i>Repayment Plan</i>	<i>Borrower Count (#)</i>	<i>Percent of Total Borrower Count</i>	<i>Principal Balance Outstanding (\$)</i>	<i>Loan Amount (\$)</i>	<i>Average Loan Amount</i>	<i>Percent of Total Loan Amount</i>
Standard	301,817	43%	\$ 3,729,080,437	\$ 4,145,517,660	\$ 13,735	29%
Income Contingent Repayment	182,178	26%	\$ 3,816,246,780	\$ 3,834,087,757	\$ 21,046	27%
Payments less than interest	87,383	12%	\$ 1,923,399,764	\$ 1,936,038,142	\$ 22,156	14%
Payments greater than or equal to interest	94,795	13%	\$ 1,892,847,016	\$ 1,898,049,615	\$ 20,023	13%
Graduated	137,190	19%	\$ 3,053,074,468	\$ 3,101,952,324	\$ 22,611	22%
Extended	84,028	12%	\$ 2,730,481,991	\$ 2,852,202,918	\$ 33,943	20%
Alternative Plan	5,337	1%	\$ 117,197,409	\$ 135,216,042	\$ 25,336	1%
Total *	709,786	100%	\$ 13,446,081,085	\$ 14,068,976,702	\$ 19,821	100%

\* Unduplicated borrower count.

**Table 5: Direct Consolidation Loans in Repayment by Plan:  
Defaulted Loans Formerly Held by ED's Debt Collection Service**

<i>Repayment Plan</i>	<i>Borrower Count (#)</i>	<i>Percent of Total Borrower Count</i>	<i>Principal Balance Outstanding (\$)</i>	<i>Loan Amount (\$)</i>	<i>Average Loan Amount</i>	<i>Percent of Total Loan Amount</i>
Standard	63,550	57%	\$ 318,715,398	\$ 343,082,099	\$ 5,399	49%
Graduated	29,748	27%	\$ 216,876,576	\$ 216,141,878	\$ 7,266	31%
Income Contingent Repayment	11,778	11%	\$ 80,719,328	\$ 77,778,778	\$ 6,604	11%
Extended	6,905	6%	\$ 66,899,517	\$ 68,730,851	\$ 9,954	10%
Alternative Plan	10	0%	\$ 40,742	\$ 45,933	\$ 4,593	0%
Total *	112,135	100%	\$ 683,251,561	\$ 705,779,539	\$ 6,294	100%

\* Unduplicated borrower count.

**Table 6: Direct Consolidation Loans in Repayment by Plan:  
Consolidation Type = "Regular" Consolidation of (Non-DCS Loans)**

<i>Repayment Plan</i>	<i>Borrower Count (#)</i>	<i>Percent of Total Borrower Count</i>	<i>Principal Balance Outstanding (\$)</i>	<i>Loan Amount (\$)</i>	<i>Average Loan Amount</i>	<i>Percent of Total Loan Amount</i>
Standard	238,397	40%	\$ 3,409,473,808	\$ 3,801,485,419	\$ 15,946	29%
Extended	77,204	13%	\$ 2,663,424,434	\$ 2,783,316,598	\$ 36,051	21%
Graduated	107,603	18%	\$ 2,835,914,828	\$ 2,885,506,253	\$ 26,816	22%
ICR	170,798	29%	\$ 3,735,395,565	\$ 3,756,175,778	\$ 21,992	28%
Alternative Plan	3,523	1%	\$ 89,756,731	\$ 103,761,954	\$ 29,453	1%
Total *	598,715	100%	\$ 12,733,965,367	\$ 13,330,246,002	\$ 22,265	100%

\* Unduplicated borrower count.